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**A Forecast of the Bank of Japan's
Short-Term Economic Survey ("Tankan")
(June Survey)**

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**A Forecast of the Bank of Japan's
Short-Term Economic Survey ("Tankan")
(September Survey)**

The Bank of Japan's *Short-Term Economic Survey* (the "Tankan"), due to be published on July 2, is likely to confirm a severe downturn in the business sector's perception of the state of the economy.

The business sentiment diffusion index(DI) for June is likely to be -32% points on an all industries/all sizes of company basis, a sharp fall of 10% points on the level recorded in the March survey. The fact that the downward trend of exports shows no signs of slowing, against the background of a worldwide decline in the demand for IT, suggests that, in the manufacturing sector, the business sentiment DI is likely to fall as much as 15% points. Looking to the future, the continued presence of negative factors such as the deterioration of overseas economies, the sluggishness of consumer spending due to the deterioration of employment and income conditions, and the stagnation of share prices make it highly probable that the business sector will grow yet more cautious.

On an all industries/all sizes of company basis, the *Tankan's* forecast of the amount of capital investment in fiscal 2001 is likely to be 7% points lower than in fiscal 2000, only a small upward revision on the level forecast in March. The fall in demand for electronic devices means that semiconductor investment, which provided most of the pulling power in fiscal 2000, is likely to be sharply reduced, and the number of stores opened by the retail sector is also likely to record a substantial fall.

The principal factor behind this declining confidence in the economy is the fall in exports in conjunction with the deceleration of overseas economies, but at the root of the problem is the fact that the postponement of structural reform has led to a decline in the efficiency of the Japanese economy as a whole, and a continued uncertainty over the future trend of the economy. Accordingly, the only way to resolve the present situation is to make steady progress with structural reform, in spite of the immediate economic trend, and to promote the transfer of business resources from the mature sectors of the economy to the growth sectors. It is

highly likely that structural reform will increase the deflationary pressure on the economy in the short term, and measures will be required to ensure that the reform process is not checked by a slump in the economy. These should include measures to foster new industries through the creation of a safety net for employment, deregulation, etc., together with continued quantitative monetary easing and tolerance of a fall in the value of the yen, as means of relieving deflationary pressure.

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